

SONOMA COUNTY SANITATION DISTRICTS
ENTERPRISE FUNDS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

7. Capital Leases Payable:

Future minimum lease payments under capital leases to fund certain improvements to the sewer systems for Forestville County Sanitation District together with the present value of the minimum lease payments at June 30, 2001, are as follows:

<u>Year ending June 30</u>	<u>Forestville</u>
2002	\$ 132,263
2003	132,263
2004	132,263
2005	132,263
2006	132,263
Thereafter	<u>1,322,623</u>
Total minimum lease payments	1,983,938
Less: Amount representing interest	<u>(728,639)</u>
Present value of minimum lease payment	1,255,299
Less: Current portion	<u>(51,492)</u>
Leases payable, noncurrent	<u>\$ 1,203,807</u>

8. Bonds Payable:

Bonded debt for the Sanitation Districts is summarized as follows:

	<u>Final Maturity Date (Fiscal Year)</u>	<u>Interest Rates</u>	<u>Amount</u>
General Obligation Bonds	2009-2018	4.75% to 5%	\$ 2,124,000
Revenue Bonds	2020-2023	4.75% to 5%	<u>25,021,926</u>
Total bonds payable, June 30, 2001			<u>\$ 27,145,926</u>

There are a number of limitations and restrictions contained in the various bond indentures. The Sanitation Districts believe they are in compliance with all significant limitations and restrictions.

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8. Bonds Payable (Continued):

The annual requirements to amortize general obligation bonds payable outstanding at June 30, 2001 are as follows:

Year Ending June 30	Occidental	Russian River	Sonoma Valley	Total
2002	\$ 1,380	\$ 48,375	\$ 4,525	\$ 54,280
2003	1,333	169,875	16,850	188,058
2004	1,285	171,000	17,425	189,710
2005	1,238	171,875	16,975	190,088
2006	1,190	167,625	17,500	186,315
Thereafter	<u>3,284</u>	<u>2,190,250</u>	<u>188,525</u>	<u>2,382,059</u>
Total payments	9,710	2,919,000	261,800	3,190,510
Less amount representing interest	<u>(1,710)</u>	<u>(984,000)</u>	<u>(80,800)</u>	<u>(1,066,510)</u>
Bond liability, June 30, 2001	8,000	1,935,000	181,000	2,124,000
Less current portion	<u>(1,000)</u>	<u>0</u>	<u>0</u>	<u>(1,000)</u>
Long-term bonds payable	<u>\$ 7,000</u>	<u>\$ 1,935,000</u>	<u>\$ 181,000</u>	<u>\$ 2,123,000</u>

The annual requirements to amortize revenue bonds payable outstanding at June 30, 2001 are as follows:

Year Ending June 30	Russian River	Sonoma Valley	South Park	Total
2002	\$ 117,000	\$ 1,471,092	\$ 257,721	\$ 1,845,813
2003	119,750	1,469,692	254,683	1,844,125
2004	117,250	1,477,292	256,486	1,851,028
2005	119,750	1,478,792	253,146	1,851,688
2006	117,000	1,464,288	254,659	1,835,947
Thereafter	<u>1,676,500</u>	<u>26,239,066</u>	<u>5,313,636</u>	<u>33,229,202</u>
Total payments	2,267,250	33,600,222	6,590,331	42,457,803
Less amount representing interest	<u>(827,250)</u>	<u>(13,560,245)</u>	<u>(3,048,381)</u>	<u>(17,435,876)</u>
Bond liability, June 30, 2001	1,440,000	20,039,977	3,541,950	25,021,927
Less current portion	<u>(45,000)</u>	<u>(525,000)</u>	<u>(75,000)</u>	<u>(645,000)</u>
Long-term bonds payable	<u>\$ 1,395,000</u>	<u>\$19,514,977</u>	<u>\$ 3,469,950</u>	<u>\$ 24,376,927</u>

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9. Interest Payable:

Interest payable consists of interest accrued on the following obligations:

Payable from current assets:

Capital leases	\$ 27,198
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Payable from restricted assets:

State Water Resources Control Board	18,000
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Long-term bonds	<u>460,390</u>
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Total	<u>478,390</u>
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Total interest payable	<u>\$ 505,588</u>
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10. Contributed Capital:

During the year, contributed capital changed as follows:

Contributed capital, July 1, 2000	\$ 56,811,074
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FY 00-01 additions:

Customer/developer - connection fees	2,072,956
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Sonoma County Water Agency - General Fund	96,500
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FY 00-01 deletions:

Depreciation expense on contributed fixed assets	<u>(1,874,407)</u>
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Contributed capital, June 30, 2001	<u>\$ 57,106,123</u>
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11. Deficit Retained Earnings:

The Russian River County Sanitation District and the Occidental County Sanitation District have deficit retained earnings of \$4,701,754 and \$162,975 respectively. These districts have incurred expenses in excess of revenues during the current year and in prior years. Occidental is currently receiving advances from the Sonoma County Water Agency to cover losses resulting from its continuing inability to increase revenues or to further reduce its cost of operations. In the case of Russian River, the deficit can be traced to the annual charges to operations for the depreciation of sewer system construction costs which were funded in prior years with long-term debt.

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12. Commitments and Contingencies

- **Contracts**

The Sanitation Districts are committed under contract as follows:

Forestville Sanitation District	\$ 66,677
Russian River Sanitation District	18,830
Sonoma Valley Sanitation District	932,292
South Park Sanitation District	483,158

South Park Sanitation District is required to pay \$125,000 per year for a period of five years to the North Coast Regional Water Quality Control Board (NCRWQCB). Payments began September 1, 1999 in order to cover administrative costs of the NCRWQCB for the purpose of ensuring progress in investigation, cleanup, outreach, and potentially responsible party identification in the volatile organic compound plume area within the District.

- **Advanced Wastewater Treatment Upgrade Project**

Forestville County Sanitation District, Forestville Water District, and the Sonoma County Water Agency have entered into a cooperative project to utilize recycled water. The Sanitation District is required to upgrade its wastewater treatment plant to a tertiary level of treatment in order to comply with the North Coast Regional Water Quality Control Board's Basin Plan for the Russian River. Funding for the upgrade project has come from the Sonoma County Water Agency's Recycled Water Use Program (\$460,000) and the Water Conservation Program (\$99,585). The Sanitation District will complete the design and construction of the Advanced Wastewater Treatment Upgrade Project, and will supply approximately forty-six acre feet of recycled water per year to Forestville Water District. The Sanitation District has not established a price for delivery of the recycled water, but has agreed to charge no more than fifty percent of the Water Transmission Operations and Maintenance rate charged to Forestville Water District by the Sonoma County Water Agency.

The Sanitation District has received funding of \$435,022 from the Sonoma County Water Agency's Recycle Water Fund to purchase pipeline for the transport of recycled water. The subject pipeline is a 1099 foot section of the Regional Facilities Project pipeline constructed in 1996 to transport untreated wastewater between the Graton Sanitation Zone and the Sanitation District's treatment plant. In exchange for the funding, the Sanitation

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12. Commitments and Contingencies (Continued)

- **Advanced Wastewater Treatment Upgrade Project (Continued)**

District has provided the Sonoma County Water Agency an option to purchase rights to approximately 110 acre feet per year of tertiary treated water in perpetuity.

Funding for the project during the fiscal year ended June 30, 2001 totaled \$994,607, which is reflected in the financial statements as follows:

Contributed capital	\$ 559,585
Intergovernmental revenue	<u>435,022</u>
Total	<u>\$ 994,607</u>

- **Risk Management**

The Sanitation Districts are partially self-insured through the County of Sonoma's self-insurance program. The Sanitation Districts are covered under this program for general liability, auto liability and public official's errors and omissions.

- **Pending Litigation and Claims**

Proceedings are pending before the North Coast Regional Water Quality Control Board, the Superior Court, and the federal district citizen suit court in which the Russian River County Sanitation District is alleged to have committed violations of the Federal Clean Water Act. Substantial costs can be expected in connection with these pending proceedings and the necessary physical improvements to comply with the Clean Water Act; it is too early to predict the amount of these substantial costs or the source of funds. South Park County Sanitation District and the County of Sonoma have entered into a plan of action with the California Regional Water Quality Control Board to investigate a groundwater plume of volatile organic compounds. If the information from the investigation confirms that the plume entered the ground from sewer pipes, the District and Sonoma County may incur substantial costs in connection with remediation. It is too early to predict the amount of such costs.